SECURITIES AND EXCHANGE COMMISSION

N.Y. STOCK EXCHANGE

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

American Stock Exchange Inc.

MSE

MIDWEST STOCK EXCHANGE, INCORPORATED

The Chicago Board Options Exchange

PHILADELPHIA STOCK EXCHANGE "AMERICA'S FIRST"

BOSTON STOCK EXCHANGE

THE PACIFIC STOCK EXCHANGE INCORPORATED

SIA SECURITIES INDUSTRY ASSOCIATION

SIPC

SECURITIES INVESTOR PROTECTION CORPORATION

Tenth Anniversary

Annual Report 1980

Contents

"SIPC shall not be an agency or establishment of the United States Government . . . SIPC shall be a membership corporation the members of which shall be all persons registered as broker-dealers. . ."*

—Securities Investor Protection Act of 1970
Sec. 3(a)(1)(A) & (2)(A)

* Except those engaged exclusively in the distribution of mutual fund shares, the sale of variable annuities, the insurance business, furnishing investment advice to investment companies and insurance companies, and those whose principal business is conducted outside the United States.

ABOUT OUR COVER

The logos on our cover represent the industry, self-regulatory and government organizations whose cooperation ten years ago led to SIPC's creation. Throughout the decade, the financial support of the SIA's members, collaboration of the self-regulatory organizations and the SEC's regulatory guidance have been instrumental to SIPC's effectiveness.

SECURITIES INVESTOR PROTECTION CORPORATION
900 SEVENTEENTH STREET, N.W. • SUITE 800
WASHINGTON, D.C. 20006 • (202) 223-8400

March 26, 1981

The Honorable Philip A. Loomis, Jr.
Acting Chairman
Securities and Exchange Commission
500 North Capitol Street, N.W.
Washington, D.C. 20549

Dear Sir:

On behalf of the Board of Directors I submit herewith the Tenth Annual Report of the Securities Investor Protection Corporation pursuant to the provisions of Section 11(c)(2) of the Securities Investor Protection Act of 1970.

Respectfully,

Hugh F. Owens

Hugh F. Owens
Chairman

Securities Investor Protection Corporation

DIRECTORS

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Chairman

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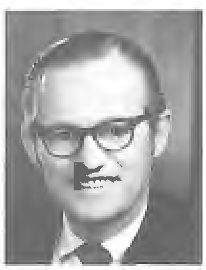

Brenton H. Rupple
Chairman, Robert W.
Baird & Co., Inc.
Milwaukee, Wisconsin

James L. Kichline
Director, Division of
Research and Statistics,
Board of Governors
of the Federal Reserve
System
Washington, D.C.

Michael A. Taylor
Senior Vice President,
Paine, Webber,
Jackson & Curtis,
Incorporated
New York, New York

The Secretary of the Treasury will appoint the seventh SIPC Director from among the officers and employees of the Department of the Treasury.

STAFF OFFICERS

Lloyd W. McChesney
Vice President—Finance

John B. Bourne
Assistant Vice President—Finance

J. H. Moelter
Assistant Vice President—Finance

Theodore H. Focht
General Counsel & Secretary

Michael E. Don
Associate General Counsel

William H. Seckinger
Associate General Counsel

Introduction

The Securities Investor Protection Corporation (SIPC) had its origins in the difficult years of 1968-70, when the paperwork crunch, brought on by unexpectedly high trading volume, was followed by a very severe decline in stock prices. Hundreds of broker-dealers were merged, acquired or simply went out of business. Some were unable to meet their obligations to customers and went bankrupt. Public confidence in our securities markets was in jeopardy.

Congress acted swiftly, passing the Securities Investor Protection Act of 1970 (SIPA). Its purpose is to afford certain protections against financial loss to customers of broker-dealers which fail and, thereby, promote investor confidence in the nation's securities markets. Currently, the limits of protection are $500,000 per customer, except that claims for cash are limited to $100,000 per customer.

SIPC is a nonprofit, membership corporation. Its members are, with some exceptions, all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange.*

A board of seven directors determines policies and governs operations. Five directors are appointed by the President of the United States, subject to Senate approval. Three of the five represent the securities industry and two are from the general public. One director is appointed by the Secretary of the Treasury and one by the Federal Reserve Board from among the officers and employees of those organizations. The Chairman, who is the Corporation's chief executive officer, and the Vice-Chairman are designated by the President from the public directors.

The SIPC staff, numbering 28, is composed of the Finance Department, headed by a Vice-President, and the Legal Department headed by the General Counsel. Their functions include initiating the steps leading to the liquidation of a member, advising the trustee, his counsel and accountants, reviewing claims, auditing distributions of property, and other activities pertaining to the Corporation's purpose. In cases where the court appoints SIPC or a SIPC employee as Trustee and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities to the courts having jurisdiction.

The money required to protect customers beyond that which is available from the property in the possession of the failed broker-dealer is advanced by SIPC from a fund maintained for that purpose. The sources of money for the SIPC Fund are assessments collected from SIPC members and interest on investments in United States Government securities. If the need arises, the Securities and Exchange Commission has the authority to lend SIPC up to $1 billion, which it, in turn, would borrow from the United States Treasury.

The self-regulatory organizations—the exchanges and the National Association of Securities Dealers, Inc. (NASD)—and the SEC report to SIPC concerning member broker-dealers who are in or approaching financial difficulty. If SIPC determines that the customers of a member require the protection afforded by the Act, the Corporation initiates steps to commence a customer protection proceeding. This requires that SIPC apply to a Federal District Court for the appointment of a trustee to carry out the liquidation. Under certain circumstances, SIPC may pay customer claims directly.

Further information about the provisions for customer account protection are contained in a booklet, "An Explanation of the Securities Investor Protection Act of 1970 as Amended through 1980", which is available in bulk from the Securities Industry Association, 20 Broad Street, New York, New York 10005, and from the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

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* Section 3(a)(2)(A) of SIPA excludes:

(I) persons whose principal business, in the determination of SIPC, taking into account business of affiliated entities, is conducted outside the United States and its territories and possessions; and

(II) persons whose business as a broker or dealer consists exclusively of (I) the distribution of shares of registered open end investment companies or unit investment trusts, (II) the sale of variable annuities, (III) the business of insurance, or (IV) the business of rendering investment advisory services to one or more registered investment companies or insurance company separate accounts.

A Message from the Chairman

Reflecting on the past decade, I am impressed most by one abiding catalyst propelling steady progress on improving investor protection. I refer to the unanimity of purpose shown by the organizations depicted on our tenth Annual Report cover. All agreed ten years ago that investor protection needed improvement; such protection, the concensus held, should neither be financed by the taxpayer nor administered by the Federal Government. As the President of a leading securities broker-dealer testified before Congress in June, 1970:

> "We believe the securities business perhaps above all other businesses should have the strength, the determination, and the willingness to pay its own way."

Consistent with the long self-regulatory tradition in the securities industry, the Securities Investor Protection Act of 1970 (SIPA) established SIPC as a non-profit membership corporation distinct from the Federal government, financed by its member broker-dealers and governed by a Board of Directors whose members represent the securities industry, government, and the general public.

This cooperative spirit once again bore fruit soon thereafter in shaping SIPA's first amendments. When I took office in November, 1973, it had become evident that SIPA's effectiveness suffered from certain built-in rigidities and some liquidations were more costly and time-consuming than necessary. One of my first official acts, therefore, was to name a task force comprising representatives of SIPC, the securities industry, the Securities and Exchange Commission (SEC), self-regulatory organizations (SRO's) and the trustee of SIPC's largest liquidation to date. This group studied the Act and recommended changes to the Board of Directors.

Protection Limits Increased Twice

The recommendations, enacted as amendments to SIPA in 1978, raised the limits of protection to $40,000 on SIPC advances for customer cash claims and $100,000 as the per customer account limit on advances for both cash and securities. The amendments also reduced costs by allowing SIPC greater flexibility in handling the medium and smaller sized cases that have formed the bulk of customer protection proceedings.

Most recently, with the active support of the industry, SRO's, and the SEC, the limits of protection were raised again to $100,000/$500,000 by legislation signed into law by President Carter on October 10, 1980. This bill's relatively speedy journey through Congress—7½ months from the day we sent recommendations to Congress to amend SIPA to enactment of the increase as law—attests that Congress still adheres to two guiding principles of the SIPC program since 1970; namely, enhancing investor protection translates to boosting investor confidence, and parity should be maintained between the level of protection provided to the cash balances of bank depositors and securities investors.

Steady Fund Growth

Perhaps the best news about the increase in the limits is that, based on SIPC's past experience, higher protection will not cost SIPC members additional assessments. As many will recall, during the period 1971 through 1977 the statute required SIPC to assess members ½ of 1% of their gross revenues from the securities business to build up the SIPC Fund. The Fund achieved the statutory minimum level of $150 million late in 1977, assessments were reduced during the first half of 1978 and eliminated during the second half of that year. Beginning in 1979 each member's annual assessment is $25.

The SIPC Fund aggregated $208 million in cash and U.S. Government securities on December 31, 1980. During the year, interest earned exceeded total expenses by about $14.7 million. As the most ever advanced for customer protection in a single year was $35 million in 1973, it appears that, barring some unforeseen calamity, the SIPC Fund is adequate to meet future needs. While net SIPC advances for customer protection totalled $56 million since SIPC's inception in 1970, the Fund has earned interest of $75 million during the same period.

Money Market Funds and Cash Balances

The growth in popularity of money market mutual funds during 1980 led to questions among members and customers about SIPC protection of cash balances and shares in money market funds. Similarly, the practice of some SIPC members of offering interest on cash balances spawned further inquiries on SIPC protection.

Shares of money market funds, although often thought of by investors as cash, are in fact securities when such funds are organized as mutual funds in which shares are issued and traded as securities. When held by a SIPC member in a customer's securities account, such funds are protected as any other covered security. It is important to remember, however, that SIPC protection does not cover decline in the value of securities.

SIPA mandates protection of cash balances in a customer's securities account provided the cash was deposited for the purchase of securities. The intent of the customer must, therefore, be determined. The payment of interest would be one relevant factor in determining such intent. Accounts in which cash is deposited solely to earn interest and not for the purpose of purchasing securities would not, therefore, be protected by SIPC.

Eighties Appear Bright

In recent years, the SIPC Fund buildup and reduced rate of member failures stand in strong contrast to SIPC's early years. Compare the total of five customer protection proceedings commenced during 1980 with 24 initiated during SIPC's first year in operation. Among the factors behind the decline are refinements in the self-regulatory apparatus, modernization of member operations, higher minimum capital requirements and more stringent requirements for entry.

Brokerage firms today are stronger, better able to withstand the vicissitudes of the market. As a member of the SEC during the difficult years of the late 1960's, I am particularly gratified by the industry's record results during 1980, the most profitable year in securities industry history. Members on average earned an estimated 26.3 percent after-tax return on equity during the year.

Investor protection and the industry's health have improved dramatically over the last decade and there is every reason to believe the trend will continue during the 1980's.

Hugh F. Owens

Hugh F. Owens
Chairman

Customer Protection Proceedings

"An Act to provide greater protection for customers of registered brokers and dealers and members of national securities exchanges." —Preamble to SIPA

Customer protection proceedings were initiated for five SIPC members in 1980, bringing the total since SIPC's inception to 143 proceedings commenced under SIPA. The 143 members represent 1.2 percent of the approximately 11,800 broker-dealers that have been SIPC members during the last ten years. Currently, SIPC has 6,469 members.

The five new cases compare with six commenced in 1979 and an overall average of five per year during the period 1976 through 1980. During SIPC's first five years, 1971 through 1975, the number of proceedings commenced averaged 23 per year.

In three of the new cases, trustees other than SIPC were appointed and SIPC serves as trustee in two. The members for which customer protection proceedings were undertaken are:

Member	Date Trustee Appointed
Simpson, Emery & Company, Inc. Pittsburgh, Pennsylvania	3/ 3/80
Perry, Adams & Lewis Securities Inc. Kansas City, Missouri	4/11/80
Mister Discount-Stockbrokers, Inc. Chicago, Illinois	6/ 4/80
Yasin Jaffer Chicago, Illinois	8/28/80*
Monterey Securities Corporation San Francisco, California	11/ 4/80*

* SIPC Appointed Trustee

First Transfer of Accounts

The Mister Discount-Stockbrokers, Inc. (Mr. Discount) proceeding marks the first transfer of customer accounts from a failed member to another SIPC member. An innovation of the May, 1978 Amendments to SIPA, this procedure minimizes disruptions in customers' trading activities. Within three months of the trustee's appointment, all 550 active Mr. Discount accounts had been transferred to another SIPC member and customer account balances and positions restored to their condition on the day SIPC filed in court to commence the customer protection proceeding.

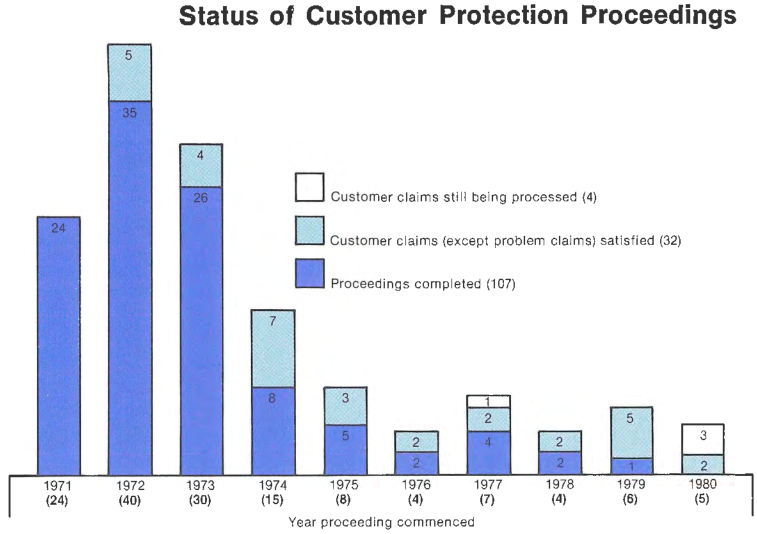
With the exception of five customer claimants who are ineligible for SIPC protection, the claims of all 488 customers of Simpson, Emery & Company, Inc. (Simpson, Emery) have been reviewed, approved and substantially satisfied. Customer claims for securities and credit balances totalled about $5 million in value and SIPC advances to the Simpson, Emery trustee to satisfy remaining customer claims totalled $930,000 during 1980.

In each of the three remaining proceedings commenced during 1980, the number of customer claims were relatively few.

107 Proceedings Completed

Of the 143 proceedings begun under SIPA to date, 107 have been completed, 32 involve problem claims and/or litigation, and claims in 4 are being processed (See Figure 1).

Figure 1
Status of Customer Protection Proceedings



During SIPC's ten-year history, cash and securities distributed for accounts of customers aggregated approximately $300 million. Of that amount, approximately $254 million came from debtors' estates and $46 million from the SIPC Fund (See Appendix III).

Table 1 shows that the 11 debtors for which net advances from the SIPC Fund of more than $1 million have been made accounted for about half the total advanced in all 143 customer protection proceedings. The largest net advance in a single liquidation is $8 million for Weis Securities, Inc. This is about equal to the net advances in the 90 smallest proceedings.

Table 1
Net Advances from the SIPC Fund
As of December 31, 1980
143 Customer Protection Proceedings

Net Advances		Number of	Amounts
From	To	Proceedings	Advanced*
$5,000,001	up	1	$ 8,062,433
2,000,001	$5,000,000	3	9,462,752
1,000,001	2,000,000	7	9,621,898
500,001	1,000,000	14	10,868,819
250,001	500,000	24	8,497,514
100,001	250,000	40	6,457,793
50,001	100,000	34	2,466,677
25,001	50,000	11	390,093
10,001	25,000	4	59,377
-0-	10,000	5	23,158
			$55,910,514

*Consists of advances for accounts of customers ($45,582,053) and for administration expenses ($10,328,461).

The four costliest proceedings accounted for $17.5 million, or 32 percent of net advances from the SIPC Fund for all proceedings.

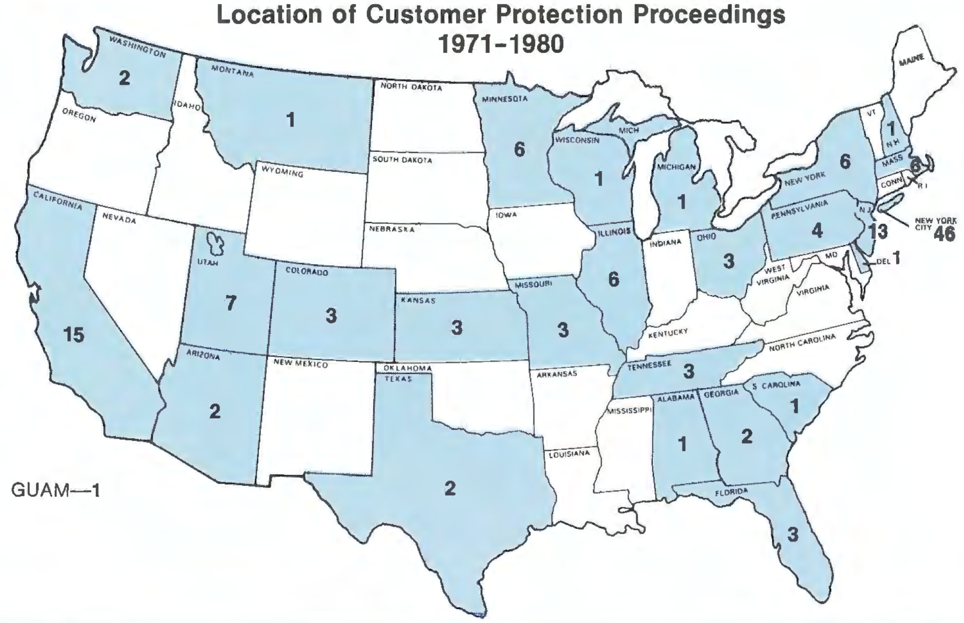
Claims Over The Limits

As of December 31, 1980, 242 of the customer claims processed exceeded the limits of protection provided by SIPA.

The 242 claims reflect an increase of 30 during 1980 and the unsatisfied portion, $5.1 million, reflects a $700,000 increase during the year. The $5.1 million is approximately 1.7 percent of the value of securities and cash distributed for accounts of customers through 1980.

Of the 30 additional over the limits claims, 16 were filed in the I.E.S. Management Group, Inc. proceeding, accounting for $255,000 of the $700,000 increase. The other 14 claims were scattered among five of the proceedings commenced after the 1978 amendments which increased the limits of SIPC protection to $100,000/$40,000. No claims in excess of the limits of SIPC protection have been filed in the proceeding commenced after the October, 1980 amendments that established the new limits of SIPC funds available to satisfy the claims of each customer at a maximum of $500,000 with a limitation of $100,000 on claims for cash.

Figure 2
Location of Customer Protection Proceedings
1971-1980



Membership and the SIPC Fund

"SIPC shall . . . impose upon its members such assessments as, after consultation with self-regulatory organizations, SIPC may deem necessary . . ." —SIPA, Sec. 4(c)(2)

The net increase of 492 members during the year brought the total membership to 6,469 at December 31, 1980. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

Table II
SIPC Membership
Year Ended December 31, 1980

Agents for Collection of SIPC Assessments	Added[(a)]	Terminated[(a)]	Total
National Association of Securities Dealers, Inc.	63	40	2,105
Chicago Board Options Exchange Incorporated	80	20	1,493
SIPC[(b)]	894	478	1,295
New York Stock Exchange, Inc.	29	32	801
American Stock Exchange, Inc.	30	12	374
Philadelphia Stock Exchange, Inc.	10	11	152
Pacific Stock Exchange, Inc.	21	3	138
Midwest Stock Exchange, Inc.	5	23	79
Boston Stock Exchange, Inc.	—	21	25
Spokane Stock Exchange	—	—	5
Intermountain Stock Exchange	—	—	2
	1,132	640	6,469

Notes:

a. Excluding transfers (1,296) of members to successor collection agents.

b. SIPC is the collection agent and the SEC is the examining authority for brokers and dealers that are not members of any self-regulatory organization. The additions in this category reflect the temporary status of many broker-dealers between the date of their registrations under Section 15(b) of the 1934 Act and their becoming members of a securities exchange or association. The large number of terminations reflect the temporary status after broker-dealers terminate their memberships in these self-regulatory organizations and before their withdrawal of registrations as broker-dealers.

Delinquencies

There were 319 SIPC members who were delinquent in filing reports and/or paying assessments as of December 31, 1980, and had received notices under SIPA Section 14(a).[1] Notices to 197 of these members were mailed in 1980 (76 in December), 70 in 1979, and 52 during the years 1973 through 1978. The SEC staff has advised that: (1) 166 of these members are no longer engaged in the securities business and if they do not withdraw their 1934 Act registrations, it will recommend cancellation thereof; (2) the delinquencies of 63 have subsequently been cured; (3) six are subjects of administrative proceedings; and (4) the remaining 84 are undergoing review by its regional offices and the respective examining authorities.

SIPC Fund

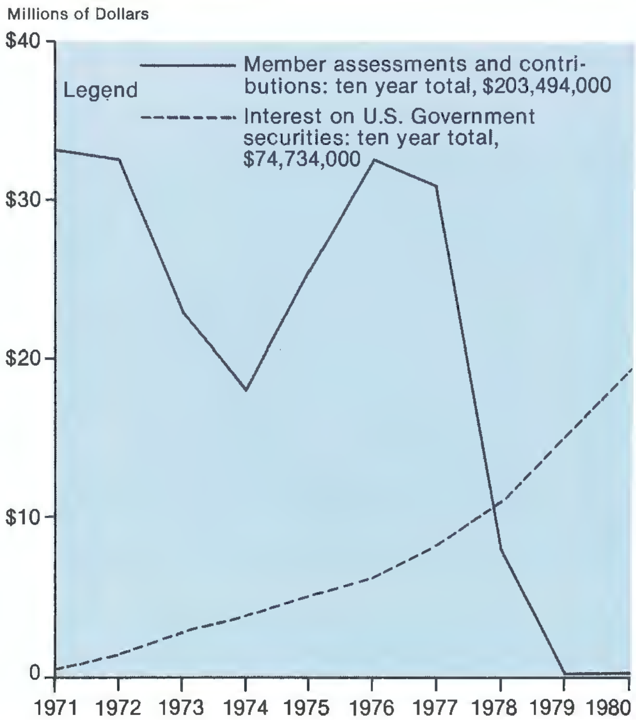
The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities, amounted to $208 million at year end, an increase of more than $14 million during the year. Tables III and IV present principal revenues and expenses during SIPC's first ten years.

Interest from investments was more than $19 million in 1980, the third consecutive year that it was the principal source of revenues. The 1980 member assessments were $154,000 based on a uniform annual assessment of $25 that has been in effect since 1979. During the period 1971 through 1977, member assessments were the principal source of revenues and were based on a percentage of each member's gross revenues from the securities business.

For 1980, expenses of $4,771,000 consisted of customer protection proceedings costs of $3,145,000 and administrative expenses of $1,626,000.

[1] 14(a) Failure To Pay Assessment, etc.—If a member of SIPC shall fail to file any report or information required pursuant to this Act, or shall fail to pay when due all or any part of an assessment made upon such member pursuant to this Act, and such failure shall not have been cured, by the filing of such report or information or by the making of such payment, together with interest and penalty thereon, within five days after receipt by such member of written notice of such failure given by or on behalf of SIPC, it shall be unlawful for such member, unless specifically authorized by the Commission, to engage in business as a broker or dealer. If such member denies that it owes all or any part of the amount specified in such notice, it may after payment of the full amount so specified commence an action against SIPC in the appropriate United States district court to recover the amount it denies owing.

Table III
SIPC Revenues for the Ten Years Ended December 31, 1980

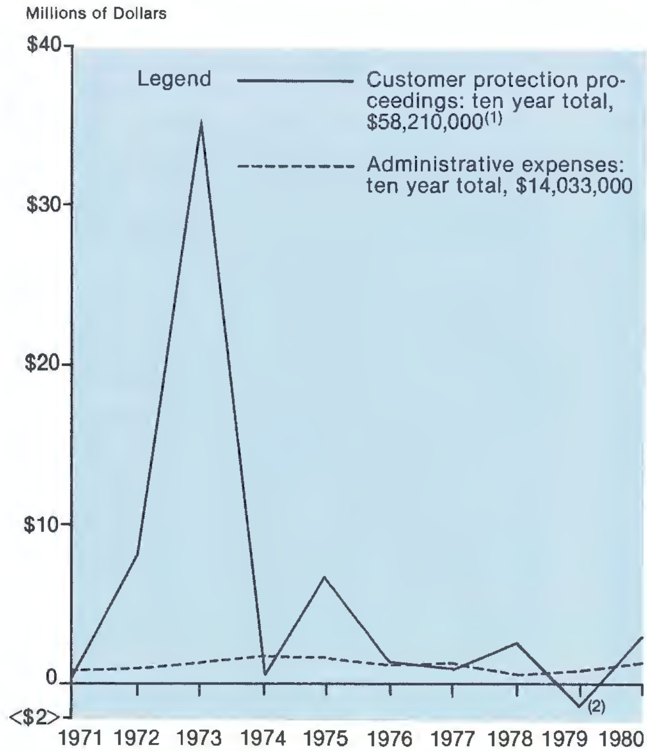


Member Assessments

1971: 1/2 of 1%* plus an initial assessment of 1/8 of 1%* of 1969 revenues, $150 minimum.
1972 - 1977: 1/2 of 1%*
January 1 - June 30, 1978: 1/4 of 1%*
1979-1980: $25 uniform annual assessment

*Rates based on each member's gross revenues from the securities business.

Table IV
SIPC Expenses for the Ten Years Ended December 31, 1980



(1) Includes net advances of $55,910,000 and $2,300,000 of estimated costs net of estimated recoveries.
(2) Net recoveries.

Financial Department: front row, l to r, V. Irene Austin, Mark S. Ginsberg, Lloyd W. McChesney (Vice President-Finance), Theodore W. Barrow, Michael M. Marx; back row, l to r, J. Elizabeth Petrie, Karen E. Winklbauer, Christine M. Brandter, Maria L. Becker, John H. Moelter (Assistant Vice President-Finance), Joseph P. Burleigh, Patricia A. Voss, John B. Bourne (Assistant Vice President-Finance), William J. Fisher, Michael R. Veon,* Clara G. McIntyre. Not pictured: Linda J. McKenzie.

* Office of the Chairman

Litigation

After the appointment of a trustee in a liquidation proceeding, or initiation of a direct payment proceeding, SIPC continues to take a major role in the action's conduct. Questions and disputes regarding interpretations of SIPA occasionally lead to litigation. In some instances, SIPC has been a litigant in other contexts, including disputes as to the membership status of certain entities, plenary lawsuits arising out of liquidation proceedings, and issues concerning the rights of third parties to compel SIPC to act.

In the 143 customer protection proceedings SIPC has initiated, the courts have rendered over 350 written opinions construing SIPA and related issues. Some of the more significant litigated matters of SIPC's first decade are discussed below.

Initiation of SIPA Proceedings and the Appointment of a Trustee

SIPC's rights and duties with respect to the circumstances surrounding the initiation of a proceeding under SIPA have been tested in several cases.

In *Bohart-McCaslin Ventures, Inc. v. Midwestern Securities Corp.,* 352 F.Supp. 937 (N.D. Tex. 1973), ("*Midwestern*"), for instance, certain creditors of Midwestern Securities Corporation ("Midwestern") brought suit against Midwestern and SIPC, seeking a decree that they were in need of and entitled to the protections provided by SIPA.

SIPC moved to dismiss the complaint on the grounds that the offending activities and actions of Midwestern took place prior to December 30, 1970, the effective date of SIPA, and SIPA could not provide retroactive protection; and that in any case, pursuant to Section 7(b) of SIPA, only the SEC had standing to compel SIPC to take action for the protection of customers.

Citing the case of *Lohf v. Casey,* 466 F.2d 618 (10th Cir. 1972), the court granted SIPC's motion to dismiss, stating that SIPA's legislative history made it clear that "customers of companies in serious difficulty prior to the effective date of the Act were not intended to enjoy the protection of SIPC."

The court decision in the *Midwestern* case included a further important holding. As a separate ground for dismissing the suit against SIPC, the court held that under SIPA only the SEC has the authority to bring suit to compel SIPC to liquidate a failed broker-dealer. That case marked the first occasion on which SIPC, prompted by the prospect of additional similar suits, urged that no party except the SEC has standing to compel a review of SIPC's determination not to liquidate a broker-dealer.

The issue of whether any party other than the SEC could compel SIPC to liquidate the business of a broker-dealer was definitively answered by the Supreme Court in *SIPC v. Barbour,* 421 U.S. 412 (1975). By an overwhelming majority (Mr. Justice Douglas dissenting, without opinion) the Court ordered dismissal of a proceeding commenced by the receiver of a Tennessee broker-dealer to compel SIPC intervention to protect customers whose claims had been substantially satisfied from receivership assets. Reversing the Court of Appeals for the Sixth Circuit, the Supreme Court held that the specific authority vested in the SEC by SIPA Section 7(b) to review SIPC determinations precluded implication of such right in favor of members of the public.

In *Sec v. Alan F. Hughes, Inc.,* 461 F.2d 974 (2d Cir. 1972) ("Hughes"), the district court granted SIPC's application, adjudicated the customers of Hughes to be in need of protection under the Act and appointed a trustee.

On appeal, Hughes contended it had been denied due process of law in that SIPC had failed to provide it with notice and opportunity for hearing as to its determination of danger to customers. SIPC urged, and the court of appeals held, that:

> "[D]ue process does not require that an opportunity for a hearing be afforded at the time SIPC makes its initial determination that one of its members has failed or is in danger of failing to meet its obligations to its customers and that there exists one or more of the conditions specified in § 5(b)(1)(A). That initial determination, in and of itself, has no binding legal consequences and deprives no broker-dealer of property.

Under the 1970 Act, we hold that due process is satisfied as long as the district court, after providing the broker-dealer with an opportunity to be heard, makes its own determination that the broker-dealer has failed or is in danger of failing to meet its obligations to its customers."

In 1973, another noteworthy decision affirmed SIPC's authority at the initiation of a liquidation proceeding to specify the trustee. SIPC had sought an adjudication that the customers of Oxford Securities Ltd. ("Oxford") were in need of the protections of SIPA and the appointment of a trustee. Although Oxford consented to the granting of this relief, the district court refused to grant it. The court's concern revolved around Section 5(b)(3) which provided that if the necessary adjudication is made and a trustee is to be appointed, the court shall appoint the person specified by SIPC if he is disinterested within the meaning of Section 158 of the Bankruptcy Act. In the district court's view, this was an unconstitutional infringement by Congress on the powers of the judiciary. SIPC and the SEC appealed to the U.S. Court of Appeals for the Second Circuit, which reversed the district court without opinion. The 1978 amendments to SIPA make it even clearer that Congress intended SIPC to choose the trustee and his counsel, subject only to judicial review of the "disinterestedness" of those persons. *SEC v. Oxford Securities, Ltd.,* 354 F.Supp. 301 (S.D.N.Y.), *reversed per curiam* 486 F.2d 1396 (2d Cir. 1973).

The "Customer" Definition

The most frequent subject of litigation involving SIPC has been whether a given claimant in a liquidation proceeding qualifies for the protections afforded to "customers" as defined in SIPA. Not every person who deposits cash or securities with a broker is automatically a customer. The most significant of these decisions are noted below.

In *SEC v. F.O. Baroff Company, Inc.,* 497 F.2d 280 (2d Cir. 1974), the court held that a person who lends securities to a broker-dealer for the purpose of relieving the firm's "cash bind" through use of proceeds realized upon the hypo-

Legal Department: seated, Theodore H. Focht (General Counsel); standing, l to r, Jeffrey R. McCord,* Tracey A. Williams, Virginia E. Drew, Stephen P. Harbeck, Gayle S. Peterson, William H. Seckinger (Associate General Counsel), Michael E. Don (Associate General Counsel), Kevin H. Bell. Not pictured: George F. Bingham.

* Public Information Director, Office of the Chairman.

thecation of those securities is not a "customer" with a protected claim under SIPA. SIPA was intended to protect persons having claims on account of securities deposited pursuant to some form of securities trading.

The Second Circuit relied upon the rationale of the *F. O. Baroff* case in *SIPC v. Executive Securities Corp.,* 556 F.2d 98 (2d Cir. 1977) where it held that persons who entered into loan agreements with a broker-dealer whereby they lend securities to the broker in return for cash collateral equal to the market value of the shares are not "customers." Such loan agreements, the court stated, do not bear "the indicia of the fiduciary relationship between a broker and his public customer, but rather the characteristics of, at most, an ordinary debtor-creditor relationship." The claimants maintained neither investment nor trading accounts with the broker.

The "customer" definition was discussed at length in *SIPC v. Morgan, Kennedy & Co., Inc.*, 533 F.2d 1314 (2d Cir.), *cert. denied,* 426 U.S. 936 (1976). The trustees of an employee profit-sharing plan contended that each participating employee was a separate customer of the debtor broker-dealer with which the trustees had maintained a single fiduciary account. The Court of Appeals held that it was impossible to classify the beneficiaries of the plan as "customers" of the debtor because they had none of the indicia of the ordinary customer relationships with the debtor. The court stated:

> "The trust account itself was in the name of the Trustees who had the exclusive power to entrust the assets to the debtor, to invest and reinvest, and to purchase and trade securities in the account as they saw fit. In short, the single trust account, represented by the Trustees collectively, possessed the required attributes for customer status under SIPA; the [beneficiaries of the trust] possessed none of these attributes."

Another appellate court decision denied customer status to a subordinated lender of the debtor. *SIPC v. White & Co., Inc.,* 546 F.2d 789 (8th Cir. 1976). The claimant had subordinated securities pursuant to an agreement which bore a maturity date prior to the date of the commencement ("Filing Date") of the proceeding to liquidate the debtor. However, the agreement subordinated the lender's claim to the claims of all creditors arising before the maturity date, and further provided that the lender would not be entitled to share in the debtor's assets until the claims of all such other creditors were satisfied in full. Because substantial claims of the debtor's customers which had arisen before the maturity date were unsatisfied on the Filing Date, the Court held that the claimant was not a customer because his claim was subordinated within the meaning of the customer definition in section 5(c)(2)(A)(ii) of SIPA.

The customer-subordinated lender dichotomy was again examined in the case of *In re Weis Securities, Inc.,* 605 F.2d 590 (2d Cir. 1978) ("Weis"). The Weis case claimants sought to rescind their subordination agreements by asserting that they were induced by the fraud of Weis to enter into those agreements. The court held that where a lender subordinates his loan to a securities dealer to enable the broker to comply with regulatory capital requirements, the lender is estopped from rescinding the subordination agreement. Hence, the lenders could not be treated as customers. The amendments to SIPA in 1978 amended the "customer" definition to incorporate the result in this case into the plain terms of the definition.

Several cases have held that SIPA does not protect persons who were involved in the manipulation of securities, violations of the securities laws, or violations of margin regulations. *SEC v. Provident Securities,* 452 F.Supp. 477 (S.D.N.Y. 1978); *SEC v. Kelly, Andrews & Bradley, Inc.*, 385 F.Supp. 948 (S.D.N.Y. 1974); *see also SEC v. Packer, Wilbur & Co., Inc.,* 362 F.Supp. 510; *aff'd* 498 F.2d 978 (2d Cir. 1974).

A number of cases have held that a customer's rights to damages based on fraud alone can be asserted properly only as a general creditor. *See, e.g., SEC v. S. J. Salmon & Co., Inc.,* 375 F.Supp. 867 (S.D.N.Y. 1974); *SEC v. Security Planners, Ltd., Inc.,* 416 F.Supp. 762 (D.Mass. 1976).

Open Contractual Commitments

The courts have recognized the need for strict compliance with SIPA's provisions authorizing completion of certain open contractual commitments between the broker-dealer in liquidation and other broker-dealers. The most significant decisions are outlined as follows.

SIPA does not authorize completion of an open contractual commitment where the customer of the claiming broker-dealer would not have been entitled to the protection afforded customers by SIPA. Thus, protection was denied to a broker-dealer claimant where its customer was not entitled to protection because of his violations of federal securities laws. *SEC v. Packer, Wilbur & Co., Inc.,* 498 F.2d 978 (2d Cir. 1974).

A contract does not qualify as a protected open contractual commitment unless it was "outstanding" on the filing date. Thus, completion was denied when the contra broker-dealers closed out the transactions prior to the filing date. *SEC v. Kelly, Andrews & Bradley, Inc.,* 385 F.Supp. 948 (S.D.N.Y. 1974). Similarly, only contracts wholly executory on the filing date can qualify for protection as open contractual commitments. Completion under SIPA was, therefore, denied where one side of a transaction was completed by the contra broker-dealer via delivery of securities in exchange for checks which were later dishonored. *SEC v. Packer, Wilbur & Co., Inc., supra.*

Even where a broker's failure to close out an open contractual commitment in a timely fashion was caused by a suspension of trading in the stock involved, strict adherance to SIPA and rules relating to open contracts require that the failure to close out the contractual commitment precludes use of SIPC funds to satisfy the broker's claim. *In re Weis Securities, Inc.,* [1975-1976 Transfer Binder] Fed.Sec. L.Rep. (CCH) ¶ 95, 429 (S.D.N.Y. 1976).

From time to time individuals have claimed that the "open contractual commitment" provisions of SIPA require a trustee to complete a transaction which had been ordered but not executed. All courts which have considered the question have held that only other broker-dealers may assert such claims. *See, e.g., SEC v. Aberdeen Securities Co., Inc.,* 480 F.2d 1121 (3d Cir. 1973); *cert. denied,* 414 U.S. 1111 (1973); *SEC v. Albert & Maguire Securities Co., Inc.,* 378 F.Supp. 906 (E.D.Pa. 1974); *SEC v. Kenneth Bove & Co., Inc.,* 378 F.Supp. 697 (S.D.N.Y. 1974).

Membership Disputes

Two significant disputes between SIPC and registered broker-dealers related to the status of the latter as members of SIPC. In *Massachusetts Financial Services, Inc. v. SIPC,* 545 F.2d 754, *cert. denied* 431 U.S. 904 (1977), the First Circuit held that the broker in question was not a SIPC member because its "business as a broker or dealer" consisted exclusively of the distribution of mutual fund shares, and that as such no membership assessments could be assessed on other aspects of its business. SIPC has argued that this decision fails to give the proper weight to the legislative history of SIPA, which indicates that fees generated by the non-exempt business of a broker should be assessed to support the SIPA statutory scheme.

In *SIPC v. Georgeson & Co.,* [1979-1980 Transfer Binder] Fed.Sec.L.Rep. (CCH) ¶ 97,246 (D.C. D.C. 1980), Georgeson, a registered broker-dealer, claimed it did "no business as a broker-dealer," and therefore was not required to be a member of SIPC. The court held that certain of the business performed by Georgeson did in fact require registration as a broker-dealer, and hence it was a member of SIPC obligated to pay assessments. An appeal to the United States Court of Appeals for the District of Columbia Circuit is pending.

Miscellaneous Decisions

In *In re Weis Securities, Inc.,* 542 F.2d 840 (2d Cir. 1976), Stock Clearing Corporation (SCC) sought to reclaim securities it delivered to Weis and for which it accepted an uncertified check which was subsequently dishonored. The court held that under the circumstances, including SCC's failure to insist on its own rules designed to assure payment by its members for deliveries, the transaction was a credit transaction as a result of which SCC could not reclaim the securities.

Finally, in *Touche Ross & Co. v. Redington,* __ U.S. __; 99 S.Ct. 2479 (1979), SIPC and the trustee sued an accounting firm, alleging an improper audit and certification of a broker-dealer's financial statements. The trial court dismissed the action. The United States Court of Appeals for the Second Circuit reversed, holding that an implied right of action existed under the Securities Exchange Act of 1934 which permitted such a case to be pursued in a federal court. The Supreme Court reversed, holding that no implied right of action exists under section 17(a) of the 1934 Act. SIPC and the trustee are currently pursuing a similar claim, not based upon the 1934 Act, in state court.

Disciplinary and Criminal Actions

"Congress enacted SIPA to . . . restore confidence in the capital markets, and upgrade the financial responsibility requirements for registered brokers and dealers. The Act apportions responsibilitiy for these tasks among the SEC, the securities industry self-regulatory organizations and the SIPC. . ." —Supreme Court Justice J. Marshall
May 19, 1975*

SIPC routinely forwards the names of principals and others associated with members for which SIPC customer protection proceedings (SIPC proceedings) have been initiated to the SEC for possible action under Section 10(b) of SIPA. Such individuals are also reported to the examining SRO for appropriate action. Trustees and SIPC personnel administering SIPC proceedings cooperate with SEC and law enforcement investigations of possible violations of law.

In 1980, nine persons associated with members subject to SIPC proceedings were barred from association with any broker or dealer by SEC and self-regulatory administrative actions.

Criminal and Administrative Action Summary

Since enactment of the Securities Investor Protection Act in December, 1970, criminal action has been initiated in 49 of the 143 SIPC proceedings. A total of 133 indictments have been returned in federal or state courts, resulting in 107 convictions to date. As of December 31, 1980, trial or sentencing was pending against 20 persons who had been indicted or convicted.

Administrative and/or criminal action in 130 of the 143 SIPC customer protection proceedings initiated through December 31, 1980, was accomplished as follows:

Action Initiated	Number of Proceedings
1. Joint SEC/Self-Regulatory Administrative Action	38
2. Exclusive SEC Administrative Action	22
3. Exclusive Self-Regulatory Administrative Action	21
4. Criminal and Administrative Action	41
5. Criminal Action Only	8
TOTAL	130

In the 122 customer protection proceedings in which administrative action has been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension [1]	70	54
Bar from Association	247	147
Fines	Not Applicable	$336,500

[1] Notices of suspension include those issued in conjunction with subsequent bars from association.

* SIPC v. Barbour, 421 U.S. 412 (1975) P. 415

Suspensions by self-regulatory authorities ranged from five days to a maximum of five years. Those imposed by the SEC ranged from five days to a maximum of one year.

Some associated persons were barred from the securities business; others were barred from association in a principal or supervisory capacity.

The $336,500 in fines assessed by self-regulatory authorities were levied against 39 associated persons and ranged from $250 to $50,000.

Members in or Approaching Financial Difficulty

Section 5(a)(1) of SIPA requires the SEC or the SRO's to notify SIPC immediately upon discovery of facts indicating a broker or dealer subject to their regulation is in or approaching financial difficulty. The regulatory procedures of the SEC, securities exchanges and the NASD integrate examining and reporting programs with an early-warning procedure for notifying SIPC. The primary objective is early identification of members in or approaching financial or operational difficulty and initiation of remedial action to protect the investing public.

Members On Active Referral

SIPC maintained active files on 25 members referred under Section 5(a) during calendar year 1980. Twenty-one new referrals were received during the year and four active referrals had been carried forward from prior years. Six of the 25 remained on active referral at year-end.

In addition to the formal referral of members under Section 5(a), SIPC received periodic reports from the SEC and SRO's identifying those members which, although not considered in or approaching financial difficulty, had failed to meet certain pre-established financial or operational standards and were under closer-than-normal surveillance.

Administration

Directors

On September 1, 1980, Robert H. Mundheim, Treasury Department General Counsel, resigned from government service and the SIPC Board to return to the faculty of the University of Pennsylvania. Mr. Mundheim, a Board member for three years, has accepted the new chair of University Professor of Law and Finance.

Personnel

Michael E. Don and William H. Seckinger were each promoted to Associate General Counsel. Mr. Don is principally responsible for supervision of customer protection proceedings, while Mr. Seckinger supervises all other legal department matters.

Kevin H. Bell, George F. Bingham and Stephen P. Harbeck were promoted to Assistant General Counsel.

Wilfred R. Caron, SIPC's Associate General Counsel for eight years, resigned on March 1, 1980 to assume the duties of General Counsel of the National Conference of Catholic Bishops.

Public Information Program

The 1980 program to increase public awareness of SIPC protection through media coverage of speaking tours, expanded upon the 1979 communications effort. Chairman Hugh F. Owens addressed business and securities broker groups in twenty-four cities. While bringing the SIPC message to civic leaders and investors directly, media appearances—television, radio and newspaper—reached an audience estimated to be in the millions. Moreover, during 1980, new initiatives were taken to better acquaint Registered Representatives and industry management with SIPC protections. Meetings with RRs were held in many cities and *Registered Representative Magazine* devoted a feature length article to SIPC. Meetings with members of the Boston Stock Exchange, Securities Dealers Associations of Georgia and Montgomery, Ala., District No. 8 (Chicago) of the National Association of Securities Dealers, Inc., and the Kansas City, Milwaukee and Minneapolis broker-dealer communities, were among the gatherings held with industry management.

A study of individual awareness of SIPC in a selected market has helped to determine the impact of the public information program. In Memphis, Tenn., 250 individuals were interviewed prior to SIPC appearances and media interviews, and a similar group after. Eighty-five percent of those interviewed owned securities. Awareness of investor protection rose 11 percentage points, or from 24 percent of the group to 35, following the SIPC publicity.

News of the increase in the limits of SIPC protection in October, 1980, appeared in several publications including *The New York Times, Chicago Tribune, Los Angeles Times,* and *The Washington Post.* General articles on SIPC and its protections appeared in *Barron's, Wall Street Letter, The Money Manager,* and the following metropolitan newspapers: *The Commercial Appeal,* Memphis, Tenn.; *Memphis Press-Scimitar; The Oregonian,* Portland, Oregon; *Louisville Times; Philadelphia Evening Bulletin; Detroit News; Baltimore News American; Tulsa Tribune; Pittsburgh Press; Pittsburgh Post-Gazette; Miami Herald; Minneapolis Tribune; Boston Globe; Milwaukee Sentinel.*

Based on the results achieved during 1980, the SIPC Board of Directors authorized continuance through 1981 of the communications efforts begun in November, 1978.

FINANCIAL STATEMENTS

ACCOUNTANTS' REPORT

Board of Directors
Securities Investor Protection Corporation
Washington, D. C.

We have examined the statement of financial condition of Securities Investor Protection Corporation as of December 31, 1980, and the related statements of operations and fund balance and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Securities Investor Protection Corporation at December 31, 1980, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & WHINNEY

New York, N.Y.
January 30, 1981

SECURITIES INVESTOR PROTECTION CORPORATION

STATEMENT OF FINANCIAL CONDITION
December 31, 1980

ASSETS

Cash	$ 90,747
U.S. Government securities, at amortized cost and accrued interest receivable ($4,017,875); (approximate market $202,684,000)	208,335,746
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($28,396,680) (Note 4)	1,700,000
Other	50,377
	$210,176,870

LIABILITIES AND FUND BALANCE

Advances to trustees – in process (Note 4)	$ 17,419
Accounts payable and accrued expenses	91,162
Estimated costs to complete customer protection proceedings in progress (Note 4)	4,000,000
	4,108,581
Fund balance	206,068,289
	$210,176,870

STATEMENT OF OPERATIONS AND FUND BALANCE
for the year ended December 31, 1980

Revenues:	
Interest on U.S. Government securities	$ 19,501,321
Member assessments, net of refunds of prior years' overpayments ($19,601) (Note 3)	154,169
	19,655,490
Expenses:	
Administrative:	
Salaries and employee benefits	1,069,755
Legal and accounting fees	62,933
Rent	130,725
Other	211,834
	1,475,247
Public information program consultant's fees	150,503
	1,625,750
Customer protection proceedings (Note 4):	
Provision for estimated costs to complete proceedings	3,098,414
Direct payments	47,250
	3,145,664
	4,771,414
Excess revenues	14,884,076
Fund balance, beginning of year	191,184,213
Fund balance, end of year	$206,068,289

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1980

Cash provided from (used in) operations:	
Provided:	
Interest on U.S. Government securities	$19,992,614
Member assessments	154,169
	20,146,783
Used:	
Administrative expenses	(1,575,679)
Advances to:	
Trustees other than SIPC, net of recoveries ($1,010,891)	(2,008,609)
SIPC as Trustee	(1,792,649)
Direct payments	(47,250)
	(5,424,187)
	14,722,596
Other uses of cash:	
Purchases of U.S. Government securities, net	(14,691,068)
Miscellaneous	(19,551)
Increase in cash	11,977
Cash, beginning of year	78,770
Cash, end of year	$ 90,747

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Organization

The Securities Investor Protection Corporation (SIPC) was created by the Securities Investor Protection Act of 1970 (SIPA), which was enacted on December 30, 1970 primarily for the purpose of providing protection to customers of its members. SIPC is a non-profit membership corporation and shall have succession until dissolved by an Act of Congress. Its members include all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange except for those persons excluded under SIPA.

2. The "SIPC Fund"

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating $208,426,493.

In the event the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commission is authorized to make loans to SIPC and, in that connection, the Commission is authorized to issue notes or other obligations to the Secretary of the Treasury in an aggregate amount not to exceed $1,000,000,000.

3. Member assessments

Each member's annual assessment is $25.

4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 35 liquidations and one direct payment proceeding in progress at December 31, 1980. Customer claims, except problem claims, have been satisfied in 32 of these proceedings and in four proceedings customers claims are still being processed.

Advances to trustees represent net amounts disbursed and amounts currently payable for proceedings in progress, less an allowance for possible losses.

Estimated costs to complete proceedings and future recoveries therefrom are accrued based upon the costs of completed cases of comparable size and complexity and other costs that can be reasonably estimated. The following table summarizes transactions during the year that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	$1,500,000	($4,500,000)
Add:		
Estimated future recoveries of advances	1,000,000	
Provision for estimated costs to complete proceedings		(3,098,414)
Less:		
Receipt of previously estimated recoverable advances	(800,000)	
Advances to trustees, net of estimated future recoveries ($1,000,000) and recoveries not previously estimated ($210,891)		3,598,414
Balance, end of year	$1,700,000	($4,000,000)

Customer payments and related expenses of direct payment proceedings are recorded as expenses as they are incurred.

These financial statements do not include accountability for assets and liabilities of members being liquidated by SIPC as Trustee. Such accountability is reflected in reports required to be filed with the courts having jurisdiction.

5. Retirement Plan

SIPC has a non-contributory retirement plan covering all employees. SIPC's policy is to fund retirement expense accrued. Retirement expense, $91,000 for 1980, is actuarially determined using the projected benefit method.

As of July 1, 1980, the most recent actuarial valuation date, the market value of plan assets was $868,843, and the present value of accumulated plan benefits based on an assumed interest rate of 8 percent per annum, calculated in accordance with Statement No. 36 of the Financial Accounting Standards Board, was as follows:

Present Value of Accumulated Plan Benefits	
Vested:	
Retired member and survivors currently receiving payments	$ 55,433
Other members	451,050
	506,483
Non-vested	45,331
	$551,814

APPENDIX I

CUSTOMER PROTECTION PROCEEDINGS

PART A: Customer Claims and Distributions Being Processed

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers(a) To Whom Notices and Claim Forms Were Mailed	Responses(a) Received
I.E.S. Management Group, Inc., Irvington, New Jersey (Michael R. Griffinger, Esq.)	6/17/70	6/ 9/77	9/27/77	3,600	1,682
Perry, Adams & Lewis Securities, Inc., Kansas City, Missouri (George H. Clay, Esq.)	12/ 4/75	4/ 2/80	4/11/80	259	17
Yasin Jaffer, Chicago, Illinois (SIPC)	1/13/78	2/28/80	8/28/80	255	15
Monterey Securities Corporation, San Francisco, California (SIPC)	3/ 2/79	10/24/80	11/ 4/80	57	26
TOTAL 4 MEMBERS: PART A				**4,171**	**1,740**

PART B: Customer Claims (Except Problem Claims) Have Been Satisfied

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers(a) To Whom Notices and Claim Forms Were Mailed	Responses(a) Received
JNT Investors, Inc., New York, New York (Jerry B. Klein)	6/17/70	2/15/72	2/15/72	1,572	938
C. H. Wagner & Co., Inc., Boston, Massachusetts (Thomas J. Carens, Esq.)	6/23/69	2/22/72	2/28/72	14,000	839
Equitable Equities, Inc., New York, New York (Robert E. Smith, Esq.)	2/ 4/70	10/13/72	10/13/72 2/15/78*	134	69
Havener Securities Corp., New York, New York (Ezra G. Levin, Esq.)	11/13/59	10/13/72	10/24/72	900	533
C. I. Oren & Co., Inc., New York, New York (Martin R. Gold, Esq.)	11/10/68	10/13/72	10/26/72	345	61
Provident Securities, Inc., New York, New York (Harvey R. Miller, Esq.)	3/16/69	1/23/73	2/ 2/73 9/10/75*	2,100	850
Custodian Security Brokerage Corp., New York, New York (Lyonel E. Zunz, Esq.)	4/25/71	3/ 6/73	3/ 7/73	673	67
Pacific Western Securities, Inc., Los Angeles, California (Edwin M. Lamb)	8/ 7/66	3/26/73	3/28/73	3,023	521

* Successor Trustee

Distributions From Debtors' Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
		$ 3,810,857	$ 422,319			$3,388,538	289
		468,295	118,820		$326,709	22,766	11
		2,077	2,077				
		500	500				
		$ 4,281,729	$ 543,716		$ 326,709	$3,411,304	300
$ 1,956,641	927	$ 374,235	$ 140,433	$ 19,863	$ 22,994	$ 190,945	146
54,889	8	1,140,300	69,312	9,887	72,846	988,255	253
131,585	45	107,132	26,667	27,604	16,034	36,827	33
814,261	491	443,066	229,083	24,044	16,368	173,571	233
1,800	1	346,109	209,904	59,071	33,710	43,424	45
229,976	742	1,008,976	298,281		310,211	400,484	672
1,219	3	134,272	81,633		29,928	22,711	17
360,006	276	1,558,458	435,943	18,163	980,074	124,278	361

APPENDIX I

CUSTOMER PROTECTION PROCEEDINGS

PART B: Customer Claims (Except Problem Claims) Have Been Satisfied

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
Weis Securities, Inc., New York, New York (James W. Giddens, Esq.)	8/ 1/65	5/24/73	5/30/73 7/28/80*	55,026	34,000
† In the administration of the estate, advances to pay customers' free credit balances or cash in lieu of securities were not separately identified.					
Parker Jackson & Co., Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	5/24/63	2/ 7/74	2/14/74	2,400	1,103
Memme & Co., Inc., New York, New York (Edward Farman, Esq.)	8/ 6/65	8/ 6/73	4/15/74	300	29
Christian-Paine & Co., Inc. Carlton Cambrige & Co., Inc. Hasbrouck Heights, New Jersey (Irwin Weinberg, Esq.)	6/24/70 7/21/68	4/10/74	4/18/74	17,500	7,884
Llorens Associates, Inc., New York, New York (Lloyd Frank, Esq.)	4/ 1/70	6/18/74	7/ 1/74	548	93
Financial House, Inc., Detroit, Michigan (David Robb, Esq.)	3/ 9/55	9/17/74	9/18/74	1,958	708
Henry C. Atkeison, Jr., d/b/a Ambassador Church Finance Development Group, Inc.; d/b/a Atalbe Christian Credit Association, Inc., Brentwood, Tennessee (Fred D. Bryan)	4/18/70	11/ 7/74	12/17/74	531	115
Universal Underwriting Service, Inc., Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	8/28/71	11/25/74	12/26/74	5,500	1,100
Executive Securities Corp., New York, New York (Cameron F. MacRae III, Esq.)	11/ 8/67	2/14/75	2/14/75	8,740	2,757
G. H. Sheppard & Co., Inc., New York, New York (Jerome M. Selvers, Esq.)	4/ 4/73	3/ 4/75	3/25/75	175	27
Investors Security Corp., Monroeville, Pennsylvania (Thomas P. Ravis, Esq.)	5/ 8/66	9/15/75	9/15/75	4,300	244

* Successor Trustee

Distributions From Debtors' Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
$181,695,069	32,000 (Estimated)	$ 8,062,433			$ 8,062,433†		31,500 (Estimated)
42,899	417	134,895	$ 83,259	$ 963	26,929	$ 23,744	154
70	6	83,056	51,753	7,562	4,300	19,441	14
776,386	12,572	3,530,886	1,224,504	3,125	2,044,056	259,201	6,571
31,174	40	115,923	59,681	214	17,823	38,205	30
431,422	226	963,403	277,888	37	568,250	117,228	284
6,860	11	89,917	65,507		22,243	2,167	17
160,613	738	54,255			18,302	35,953	164
2,268,426	1,218	2,121,009	25,531	30,535	1,449,655	615,288	1,341
11,071	6	154,456	60,436	8,950	26,866	58,204	15
800	1	417,119	106,014		165,857	145,248	20

APPENDIX I

CUSTOMER PROTECTION PROCEEDINGS

PART B: Customer Claims (Except Problem Claims) Have Been Satisfied

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
Institutional Securities of Colorado, Inc., Denver, Colorado (Ralph M. Clark, Esq.)	4/27/71	9/29/76	10/ 4/76	9,000	1,780
Stilwell, Coker & Co., Inc., Charleston, South Carolina (Norman W. Stevenson, Esq.)	10/ 9/73	12/16/76	12/16/76	539	77
Swift, Henke & Co., Inc., Chicago, Illinois (J. William Holland, Esq.)	5/30/65	3/14/77	3/15/77	1,350	186
James A. Finan & Co., Inc., Jersey City, New Jersey (Bruce I. Goldstein, Esq.)	2/ 2/76	8/10/77	11/ 2/77	200	5
Douglas F. Brown Financial Services, Inc., Longview, Washington (James E. Newton, Esq.)	7/15/77	6/14/78	7/18/78	419	38
Paul Kendrick & Co., Inc., San Francisco, California (SIPC)	9/ 8/71	4/10/79	4/17/79	132	9
Francis Eugene Mooney, Jr., d/b/a Bach Planning Co., Knoxville, Tennessee (SIPC)	8/ 5/69	5/25/77	5/23/79	188	23
Link-Up + 1 Securities, Inc., Denver, Colorado (SIPC)	12/22/78	5/17/79	8/ 9/79	117	25
Hamilton/Cooke & Co. of Florida, Inc., Miami, Florida (SIPC)	4/10/78	9/25/79	10/ 2/79	946	244
P. J. Kisch & Co., Inc., Minneapolis, Minnesota (SIPC)	6/15/78	11/ 5/79	11/ 9/79	1,407	769
Simpson, Emery & Company, Inc., Pittsburgh, Pennsylvania (Carl F. Barger, Esq.)	2/ 2/54	3/ 3/80	3/ 3/80	20,010	616
Mister Discount-Stockbrokers, Inc., Chicago, Illinois (Robert E. Ginsberg, Esq.)	7/15/77	6/ 3/80	6/ 4/80	2,800	295
TOTAL 31 MEMBERS: PART B				156,833	56,005

PART C: Direct Payment Proceeding

Customer Claims (Except Problem Claims) Have Been Satisfied

Benchmark Securities, Inc. Los Angeles, California	5/31/67	9/22/78	9/22/78*	1,500	41
TOTAL 1 MEMBER: PART C				1,500	41

* Date Notice Published

Distributions From Debtors' Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
$ 2,984,334	911	$ 284,060			$ 181,104	$ 102,956	484
128,316	36	333,391	$ 5,408		274,318	53,665	53
2,205,952	88	690,790		$ 331	290,618	399,841	106
		93,500			75,800	17,700	4
		195,533	3,707		580	191,246	20
		51,268	1,268			50,000	2
		261,521	346		75,525	185,650	15
		175,491	11,989		114,962	48,540	18
1,307,516	204	1,544,359			1,159,816	384,543	98
1,581,316	697	171,223	4,964		80,900	85,359	91
4,440,189	493	971,603	42,063	1,719	415,663	512,158	300
1,700,000 (Estimated)	550 (Estimated)	202,312	52,312		150,000		550 (Estimated)
$203,322,790	52,707	$25,814,951	$3,567,886	$212,068	$16,708,165	$5,326,832	43,611
		$ 79,791	$ 2,648			$ 77,143	9
		$ 79,791	$ 2,648			$ 77,143	9

APPENDIX I

CUSTOMER PROTECTION PROCEEDINGS

PART D: Proceedings Completed in 1980

Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
Smith & Medford, Inc., Atlanta, Georgia (William Green, Esq.)	6/ 1/73	336	$ 304,625
Busec Securities Corp., Buena Park, California (Harold L. Orchid, Esq.)	9/14/73	75	50,981
Investment Securities Corp., Clayton, Missouri (Martin M. Green, Esq.)	7/ 8/74	460	683,663
Horvat, Maniscalco & Co., Bergenfield, New Jersey (Lawrence E. Jaffe, Esq.)	4/25/75	250	5,878
J. S. Roberts & Co., Westfield, New Jersey (Michael M. Marx)	2/11/76	3	398,259
E. J. Albanese & Co., Inc., New York, New York (Joseph O. Barton)	11/ 4/76	42	82,255
Crystal Securities Corporation, Mendham, New Jersey (Bernard Hellring, Esq.)	9/16/77	26	44,034
San Francisco Investment Corporation, San Francisco, California (Patrick A. Murphy, Esq.)	3/16/78	6	92,442
Harold E. Pray, Lewisburg, Pennsylvania (Direct Payment)	10/19/78*	6	
Price, Allen & Stevens Securities Corp., Pepper Pike, Ohio (Direct Payment)	3/ 1/79*	10	
TOTAL 10 MEMBERS 1980		1,214	1,662,137
TOTAL 97 MEMBERS 1973-1979(b)		50,125	58,166,318
TOTAL 107 MEMBERS 1973-1980		51,339	$59,828,455

* Date Notice Published

Distributions From Debtors' Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 191,826	$ 112,799	$ 237,870	$ 63,356		$ 172,268	$ 2,246
12,975	38,006	144,652	50,259		94,282	111
564,083	119,580	316,153	2,776	$ 45,712	183,300	84,365
910	4,968	853,087	61,404		746,891	44,792
352,989	45,270	15,109	1		15,108	
5,454	76,801	88,681	21,072		35,237	32,372
23,593	20,441	200,794	13,231		54,861	132,702
33,970	58,472	75,613			24,207	51,406
		67,002	478		3,652	62,872
		180,056	1,234		31,118	147,704
1,185,800	476,337	2,179,017	213,811	45,712	1,360,924	558,570
50,024,228	8,142,090	23,555,026	6,003,593	774,732	9,538,978	7,237,723
$51,210,028	$8,618,427	$25,734,043	$6,217,404	$820,444	$10,899,902	$7,796,293

APPENDIX I

CUSTOMER PROTECTION PROCEEDINGS

PART E: Summary

	Responses Received/ Customers Receiving Distributions	Total
Part A: 4 Members—Customer Claims and Distributions Being Processed by Trustees	1,740	
Part B: 31 Members—Customer Claims (Except Problem Claims) Have Been Satisfied	56,005	$203,322,790
Part C: 1 Member—Direct Payment Proceeding—Customer Claims (Except Problem Claims) Have Been Satisfied	41	
Sub-Total	57,786	203,322,790
Part D: 107 Members—Proceedings Completed	51,339 (c)	59,828,455
TOTAL	109,125	$263,151,245

Notes:

(a) Notices and claim forms are commonly sent to all persons who, from the debtor's records, may have been customers. This is done so that potential claimants may be advised of the proceeding.

(b) Revised from previous reports to reflect subsequent recoveries, disbursements and adjustments.

(c) Number of customers receiving securities and/or cash.

(d) To be reported at completion of liquidation.

Distributions From Debtors' Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
	(d)	$ 4,281,729	$ 543,716		$ 326,709	$ 3,411,304
$203,322,790	(d)	25,814,951	3,567,886	$ 212,068	16,708,165	5,326,832
		79,791	2,648			77,143
203,322,790		30,176,471	4,114,250	212,068	17,034,874	8,815,279
51,210,028	$8,618,427	25,734,043	6,217,404	820,444	10,899,902	7,796,293
$254,532,818	$8,618,427	$55,910,514	$10,331,654	$1,032,512	$27,934,776	$16,611,572

Analysis of SIPC Revenues and Expenses

	1980
Revenues:	
Interest on U.S. Government securities	$19,501,245
Member assessments	154,169
Interest on assessments	76
	19,655,490
Expenses:	
Administrative:	
Salaries and employee benefits	1,069,755
Assessment collection direct costs	680
Legal fees	50,733
Accounting fees	12,200
Other:	
Printing and mailing annual and interim reports	15,601
Directors fees and expenses	2,160
Travel and subsistence	44,556
Personnel recruitment	8,920
Rent—office space	130,725
Depreciation and amortization	11,979
Insurance	8,284
Postage	7,712
Office supplies and expense	50,226
Telephone and telegraph	24,006
Custodian fees	11,207
Miscellaneous	26,503
	341,879
	1,475,247
Public information program consultant's fees	150,503
	1,625,750
Customer protection proceedings:	
Net advances to:	
Trustees other than SIPC:	
Contractual commitments (net recoveries)	(29,814)
Securities (net recoveries)	818,362
Cash	1,030,140
	1,818,688
Administration expenses	987,077
	2,805,765
Estimate of future recoveries*	—
	2,805,765
SIPC as Trustee:	
Securities	1,355,679
Cash	417,275
	1,772,954
Administration expenses	19,695
	1,792,649
Estimate of future recoveries*	(1,000,000)
	792,649
Direct payments:	
Securities	—
Cash	47,250
	47,250
Administration expenses	—
	47,250
Net change in estimated costs to complete proceedings*	(500,000)
	3,145,664
	4,771,414
Excess revenues	$14,884,076

* SIPC was able to estimate costs (recoveries) commencing in 1979.

for the Five Years Ended December 31, 1980

1979	1978	1977	1976
$15,342,696	$11,168,387	$ 8,395,045	$ 6,350,313
64,321	8,235,672	30,836,226	32,709,210
8,728	6,493	8,944	7,262
15,415,745	19,410,552	39,240,215	39,066,785
1,009,117	1,032,237	1,040,009	1,130,594
2,080	4,800	8,760	9,439
19,850	22,814	26,808	22,624
7,400	7,200	14,000	12,900
12,715	11,505	11,513	11,926
2,242	2,517	2,610	3,200
36,446	37,281	53,625	49,745
5,787	1,855	4,202	4,896
131,302	112,844	101,111	103,974
11,474	12,320	12,664	13,278
8,597	7,615	7,270	6,176
5,021	7,763	6,690	6,567
46,716	56,842	55,255	54,153
22,191	22,783	25,694	28,964
9,861	14,230	16,521	14,812
19,100	23,442	22,739	21,557
311,452	310,997	319,894	319,248
1,349,899	1,378,048	1,409,471	1,494,805
44,383	5,000	—	—
1,394,282	1,383,048	1,409,471	1,494,805
(49,850)	(128,449)	29,544	(26,574)
(6,000,106)	75,688	(888,179)	565,401
608,402	2,545,722	1,112,270	224,966
(5,441,554)	2,492,961	253,635	763,793
255,375	236,647	778,431	797,745
(5,186,179)	2,729,608	1,032,066	1,561,538
(1,500,000)	—	—	—
(6,686,179)	2,729,608	1,032,066	1,561,538
75,525	—	—	—
336,817	—	—	—
412,342	—	—	—
1,449	—	—	—
413,791	—	—	—
—	—	—	—
413,791	—	—	—
34,140	—	—	—
216,099	25,000	—	—
250,239	25,000	—	—
1,330	3,031	—	—
251,569	28,031	—	—
4,500,000	—	—	—
(1,520,819)	2,757,639	1,032,066	1,561,538
(126,537)	4,140,687	2,441,537	3,056,343
$15,542,282	$15,269,865	$36,798,678	$36,010,442

Distributions for Accounts of Customers For the Ten Years Ended December 31, 1980

(In Thousands of Dollars)

	From Debtors Estates (Including Securities)	From SIPC	Total
1971	$ 271	$ 401	$ 672
1972	9,300	7,343	16,643
1973	170,672	31,706	202,378
1974	21,582	(222)*	21,360
1975	6,379	4,746	11,125
1976	19,901	764	20,665
1977	5,462	254	5,716
1978	1,242	2,518	3,760
1979	9,561	(4,779)*	4,782
1980	10,163	2,848	13,011
	$254,533	$45,579	$300,112

* Net recoveries.